

# HORIZON

*trends and issues to watch, ideas and innovations to use*

## Education reform is a work in progress

**For the past 15 years, Kentuckians have expected big things from educational reform.** School curricula have grown to include larger quantities of information and more rigorous material. And now *all* children must master the content, a requirement of the No Child Left Behind Act.<sup>1</sup> According to Nancy Laprade, president of the Pawleys Group, “We will not be able to create, grow, or attract ... businesses if we do not have the intellectual capital to make them competitive.”<sup>2</sup> Researchers presenting national evidence at a symposium at Columbia University in October 2005 reported that unless the inadequate schooling received by many American students is vastly improved, future health-care, crime, and welfare costs could be ruinous for our nation. Researchers found that lower earnings among dropouts could cost the United States about \$158 billion in lost earnings and \$36 billion in lost state and federal income taxes for each class of 18-year-olds, an amount which totals a loss of about 1.6 percent of the gross domestic product each year.<sup>3</sup> Most agree that education reforms are necessary to guarantee a good education for our children and to create an adequate future workforce. This research reminds us that educational reform is a work in progress requiring constant attention and revision.

**Possible Implications for Kentucky:** The National Assessment of Educational Progress (NAEP) mathematics and reading assessments are valuable tools to check the progress of educational reform. Kentucky students have shown considerable progress over the last decade in NAEP achievement scores, increasing at the 4th- and 8th-grade levels in both math and reading proficiency.<sup>4</sup> The National Assessment Governing Board defines proficient as “solid academic performance.” Students reaching this level have demonstrated competency over challenging subject matter, including subject-matter knowledge, application of such knowledge to real-world situations, and analytical skills appropriate to the subject matter.<sup>5</sup> In 2003, all 50 states participated in that testing for the first time as part of the federal No Child Left Behind Act requirements. For the first time, Kentucky’s 4th and 8th graders surpassed the national average in reading and Kentucky fared well when compared to southern states, leading Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee in the percentage of 8th-grade students at or above the proficient level in reading. Though the percentage of Kentucky’s students at or above the proficient level in math has increased, from 13 to 26 percent for 4th graders and from 10 to 23 percent for 8th graders, there is still much work to be done since we lag the national averages by several percentage points (see table).

**NAEP Math and Reading Test Results, Grades 4 and 8, Kentucky and the U.S., Selected Years**

	Percent at or above Proficient	
	KY	US
1992 Grade 4 Math	13	17
2005 Grade 4 Math	26	35
1990 Grade 8 Math	10	15
2005 Grade 8 Math	23	28
1992 Grade 4 Reading	23	27
2005 Grade 4 Reading	31	30
1998 Grade 8 Reading	30	30
2005 Grade 8 Reading	31	29

## Pensions on dangerous ground

**After Social Security, retirees depend upon pension plans more than any other source of income** (see figure).<sup>6</sup> However, the expense of retirement benefits is increasing as private and public sector capacity for providing benefits is decreasing, creating a perfect storm that could jeopardize the standard of living for millions of Americans. The aging population is generating more retirees as rising health care expenses are increasing the cost of their benefits. Meanwhile, global competition has compelled businesses to trim expenses everywhere, including their pension contributions, and budget pressures have forced state and local governments to systematically underfund their employees’ pension funds. The consequences of these trends could include a combination of diminished retirement benefits, higher taxes, and reduced government services.

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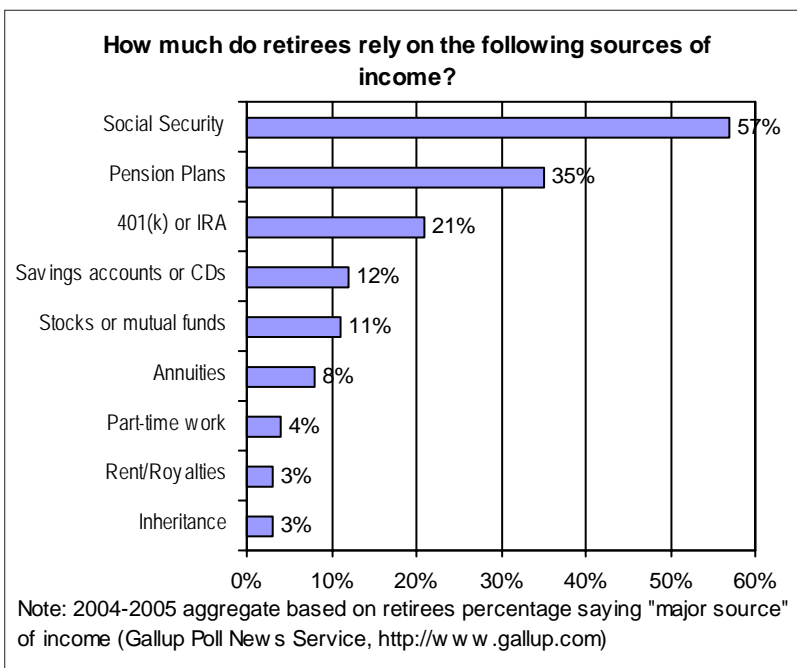
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The *New York Times* reports that the number of businesses defaulting on their pension obligations is rising.<sup>7</sup> The Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures over 30,000 private pension plans, reports that these plans are underfunded by an estimated \$450 billion,<sup>8</sup> a substantial increase from the 2003 estimate of \$300 billion and an enormous increase from the 1999 estimate of \$23 billion.<sup>9</sup> Retirees sometimes see their pension benefits cut when a company defaults on its pension obligations. And, according to the *New York Times*, it is not “certain how the trend will affect taxpayers, who may wind up on the hook if the rising tide of failed pension obligations overwhelms the resources of the pension corporation.”<sup>10</sup>

In the public sector, state and local governments are facing similar pressures on their pension systems—an aging workforce and rising health care costs—at a time when health care and education for nonretirees, as well as infrastructure development and a number of other demands, are being placed on government budgets. According to Stateline.org, “states, counties, and cities are short \$292.4 billion in money promised through their public employee retirement systems, making them ticking time bombs for state and local budgets.”<sup>11</sup> Currently the Kentucky retirement system is facing a \$4.5 billion unfunded liability, a figure that is more than twice the annual state payroll.<sup>12</sup>

**Possible Implications for Kentucky:** Many Kentuckians are no doubt depending upon their pensions to support them in retirement. A 2002 report by the Kentucky Long-Term Policy Research Center found that among those just a few years away from retirement, employer-funded pension plans are expected to be the major source of income in their retirement.<sup>13</sup> The future solvency of the PBGC is critical as well. The PBGC protects the defined benefit pensions of more than 550,000 workers and retirees in Kentucky, insures 301 defined benefit plans sponsored by Kentucky-based businesses, has taken responsibility of 25 failed plans of businesses based here, and in 2004 paid about \$16.5 million in retirement benefits to nearly 4,300 retirees and beneficiaries living in the state.<sup>14</sup> The state’s public retirement system has been funded at a level below the actuary’s recommended rate for several years now. Ultimately, to keep the system fiscally sound, some combination of changing benefits and increased employer contributions to the system will be needed. 



#### Sources:

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<sup>2</sup> Nancy Laprade, “The Competitive Edge: Creating a Human Capital Advantage for Kentucky,” *Foresight* No. 44, 2005, Kentucky Long-Term Policy Research Center, 20 December 2005 <<http://www.kltprc.net/foresight/no44.pdf>>.

<sup>3</sup> Alan Richard, “Researchers Tally Costs of Education Failings,” *Education Week*, November 2, 2005, Vol. 25 Issue 10, pages 6-7, 21 December 2005 <<http://www.edweek.org/ew/articles/2005/>>

<sup>4</sup> Kentucky Long-Term Policy Research Center, *Visioning Kentucky's Future: Measures and Milestones 2004* (Frankfort: Kentucky Long-Term Policy Research Center, 2004), 21 December 2005 <<http://www.kltprc.net/books/2004/2004trends.pdf>>.

<sup>5</sup> National Center for Education Statistics, *Glossary*, 22 December 2005 <<http://nces.ed.gov/nationsreportcard/>>.

<sup>6</sup> “Focus on Retirement,” The Gallup Poll News Service, <<http://poll.gallup.com>>.

<sup>7</sup> Mary Williams Walsh, “Whoops! There Goes Another Pension Plan,” *New York Times*, September 18, 2005, 19 September 2005 <<http://www.nytimes.com/2005/09/18/business/18pensions.html>>.

<sup>8</sup> “Performance and Accountability Report, Fiscal Year 2005,” Pension Benefit Guaranty Corporation, November 15, 2005, 21 December 2005 <<http://www.pbgc.gov/docs/2005par.pdf>>.

<sup>9</sup> Michael T. Childress, “Retirement Systems Will Require a Bigger Share of State Funds,” Policy Note No. 14, October 2003 (Frankfort, KY: Kentucky Long-Term Policy Research Center).

<sup>10</sup> Walsh.

<sup>11</sup> Kathleen Hunter, “Pensions pose time bombs for budgets,” September 23, 2005 <<http://www.stateline.org/live/ViewPage.action?siteNodeId=136&languageId=1&contentId=55769>>.

<sup>12</sup> Editorial: Next Crisis, The Paducah Sun, <<http://www.paducahsun.com>>.

<sup>13</sup> Michal Smith-Mello and Amy L. Watts, *Planning for the Future*, (Frankfort, KY: Kentucky Long-Term Policy Research Center, 2002), p. 11.

<sup>14</sup> Pension Benefit Guaranty Corporation, <http://www.pbgc.gov/media/key-resources-for-the-press/content/page13427.html>.